Lesetja Kganyago: Africa is rising – seizing the opportunity

Address by Mr Lesetja Kganyago, Governor of the South African Reserve Bank, at the SWIFT Regional Conference, Cape Town, 5 May 2015.

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Chairperson, distinguished delegates, ladies and gentlemen;

It is an honour for me to welcome you all to Cape Town, South Africa on this occasion of the SWIFT Regional Conference.

“Africa is rising – Seizing the Opportunity” this is the theme for this year’s conference. I think that you will agree that this theme is appropriate, as Africa is blessed with abundant resources and although we face several challenges, these are far outweighed by the many opportunities that the continent offers.

We acknowledge that taking advantage of these opportunities require strong political will and pan-African cooperation, however, the numerous regional integration initiatives taking place all over the continent are testimony that this is indeed possible.

This is the 22nd SWIFT African Regional Conference (ARC) and the delegates include policy makers, industry leaders and the broader financial community from across the African continent. The typical African Regional Conference attracts up to 500 delegates from around 40 countries, and is a unique forum for networking, education, discussion, and debate – all within a collaborative environment.

I believe that discussions in the next three day will focus, inter alia, on how intra- Africa trade and economic growth can be boosted, a look at how the African securities markets are evolving and the growth plans of African corporates as they expand across the continent. The conference will also focus on leveraging the role of technology innovations in Africa to benefit the financial industry and support sustainable growth objectives of the continent.

From the payment system environment, we are aware that intra-Africa payments have in the past mostly been facilitated through correspondent banking arrangements, as has been the standard for cross border payments globally. In practice, intra-Africa payments are effected through correspondent banking relationships with banking partners normally located within the USA or in Europe. Most of these correspondent banking arrangements are still used extensively today, but are proving to be inadequate and inefficient. Across the continent, several regions have launched initiatives to facilitate more efficient transacting mechanisms within their respective regions. The advantage of these initiatives is that transacting parties now have more control over their payments, within the region.

Concerns have been raised about the general reduction in correspondent banking relationships, and related financial services globally. The drivers of the reduction in correspondent banking relationships are not clear, but we surmise that regulations relating to AML/CFT and the increase in the number of cross-border money remittance or transfer companies could be contributing factors to this declining trend.

In the case of the money remittance companies, it can be argued that global banks may have concerns about the high risks of uncertainty in facilitating transactions with unknown/non-vetted clients, especially those in EMDE’s[1], in terms of the AML/CFT[2] rules. This raises the potential for fines and reputational risks for these banks and therefore reduces the appetite for exposure to specific jurisdictions by banks participating in this environment. There are

[1] Emerging Markets and Developing Economies (EMDEs).

[2] AML – anti money laundering; CFT – counter terrorist financing.

also potential downsides to decreased cross-border transactions. For example, it is a well-known fact that money remittances attract high costs, and it is therefore likely that small companies would be more affected by the reduction in global correspondent activity. In both instances, it would be the poor and smaller commercial entities that would be most vulnerable if correspondent banking activities are not replaced by more efficient and reliable alternatives.

Regional solutions, implemented in the payment system environment, will go a long way to address constraints that may be introduced by the reduction of correspondent banking services, as well as to bring overall efficiencies in the execution of intra-regional cross border payments.

I would now like to share with you developments relating to three of these regional initiatives as examples. In 2000, five countries of West Africa (Gambia, Ghana, Guinea, Nigeria and Sierra Leone) established the West African Monetary Zone (WAMZ). At the same time they also set-up the West African Monetary Institute (WAMI). Liberia joined in 2010. The objective of the countries was to establish the West African Monetary Zone (WAMZ) as a monetary and customs union with a common currency. Initially they proposed to introduce a Single Currency in 2003, but subsequently agreed to launch the new single currency in 2015. As these countries are represented at this conference, you will benefit from updates on progress made with this initiative.

The main objectives of WAMZ were agreed as:

- the promotion of trade integration in the region;
- trade and financial facilitation;
- harmonisation of legislation and statistics; and
- payment systems and macroeconomic convergence.

The WAMI was established as the main body responsible of the creation of the Common West African Central Bank and the Single Currency of the WAMZ.

In east Africa, the East African Community (EAC) has been established as a regional intergovernmental organisation of the Republics of Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda. The vision of the EAC is to foster a prosperous, competitive, secure, stable and politically united East Africa. Their mission is to widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments.

The Treaty for the establishment of the East African Community was signed on 30 November 1999 and come into force on 7 July 2000. The Republic of Rwanda and the Republic of Burundi became full members of the community with effect from 1 July 2007.

From a payment system perspective, the region has achieved the goal of implementing an integrated payment infrastructure to facilitate the ease of flow of payments among the participating member counties known as the East Africa Payment System (EAPS). The EAPS is a secure, effective and efficient funds transfer system that enhances efficiency and safety of payments and settlement within the EAC region. The systems operates on a real time gross settlement basis by utilising the linkage between the various partner states' Real Time Gross Settlement (RTGS) systems using SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging network for safe and secure delivery of payment and settlement messages to each other. The EAPS also facilitates cross border transactions that is essential for boosting intra-regional trade among the East African countries. Some of the benefits of EAPS:

- real time funds transfers, safe and efficient transfer of large value payments

- finality and irrevocability of payments
- increased accessibility as EAPS is available in all the commercial banks' branch networks, and
- same-day settlement.

This initiative is indeed a success that is worth celebrating.

The Southern African Development Community (SADC) was established as a development coordinating conference (SADCC) in 1980 and transformed into a development community in 1992. It is an inter-governmental organisation whose goal is to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance and durable peace and security among fifteen Southern African member-states. In the process of driving its development objectives, the region adopted a Regional Indicative Strategic Development Plan. In support of this plan, central banks within the region working in collaboration with the banking community launched a payment system integration project that culminated in the implementation of the SADC Integrated Regional Electronic Settlement System (SIRESS).

According to the latest data, the implementation of the SIRESS system has resulted in 43 per cent of eligible intra-SADC cross-border South African Rand payments for the participating nine countries being settled through accounts that regional banks hold on the SIRESS system, instead of via the normal cross-border correspondent banking system. At this relatively 'early' stage of SIRESS (implemented July 2013), the high percentage of cross-border transactions being settled via the SIRESS system in real time is significant, and it could in future have an even more significant impact on correspondent banking activity within the SADC region. I take great pride in being able to share with you that SIRESS has reached the ZAR 1 trillion settlement mark in the last week of April 2015.

We also recognise that the emergence of regional solutions such as SIRESS, requires regional authorities to resolve possible concerns that may arise from regulatory requirements within their business process flows to ensure that matters such as AML/CFT and exchange controls, where they exist, are taken care of.

It is my hope that the development of these initiatives will lay a solid foundation for facilitating trade and investment in Africa. Leveraging of current infrastructure, efficient securities market solutions and future infrastructure solutions may contribute to facilitating the ease of investment in the continent. The regional initiatives are also paving the way for the achievement of the integration agenda of the whole continent and I hope that in undertaking the separate regional initiatives, open standards are adopted to facilitate the ultimate integration of these regional infrastructures. What Africa needs is to get the various regional systems to interact with each other so that settlement can take place seamlessly across the region.

I also note that with the aim of leveraging the hands-on experience with projects in Africa, one session in this conference will look at the rapid growth of the regional payment systems and how lessons learnt from these projects could be replicated in other regions. The regulatory session should explore how, taking a proactive stance in coping with new financial regulations, moving quickly to adopt global best practice in the various fields of compliance and addressing of issues relating to regulatory capital requirements can lead to competitive advantages.

It is also with interest that I gather that for the first time, the 2015 ARC will host an African round of the SWIFT Innotribe start-up challenge. Innotribe is a laudable initiative that offers an opportunity for bringing innovative ideas to the fore and fostering discussions that would enable practical solutions to emerge out of those ideas. The start-up challenge will bring together young African financial technology companies from across the continent, introducing them to venture capitalists and investors. The winners will proceed and compete in the grand finale at the Sibos 2015 conference scheduled later this year in Singapore. Our continent will surely reap benefits from these initiatives and I encourage you to ensure that you are part of the growing ARC community in 2015, and that your industry discussion will be fruitful.

It is clear from the programme that the organisers have put together a full and well thought out programme. I hope you will benefit from this 22nd ARC and in this spirit I wish you well as you share experiences and meet new colleagues.

Thank you